

## Public Bank Berhad

(1295 | PBK MK) Financial Services | Finance

### Acquiring a Stake in LPI

#### KEY INVESTMENT HIGHLIGHTS

- **Acquiring a 44.15% stake in LPI for RM9.80 per share, a discount to its current price**
- **The proposed transaction will trigger an MGO but unlikely to see interest given the discount**
- **Opportunity for the group to offer comprehensive financial product**
- **Forecasts unchanged**
- **Maintain BUY | Unchanged TP of RM5.16 | based on an unchanged FY25F P/BV of 1.63x (previously 1.51x)**

**Verdict: Neutral to slight positive as the group is acquiring an established general insurance player at a discount.**

<b>Yays</b>	<ol style="list-style-type: none"> <li>1. Acquiring a stake in LPI which is an established general insurance player giving the opportunity to provide comprehensive financial product to its customers.</li> <li>2. Purchasing at a discount.</li> </ol>
<b>Nays</b>	<ol style="list-style-type: none"> <li>1. Triggers an MGO.</li> </ol>
<b>OKs</b>	<ol style="list-style-type: none"> <li>1. No significant impact to the group's earnings and BVPS.</li> </ol>

**Acquiring a stake in LPI.** It was announced yesterday that Public Bank will acquire 175,896,000 LPI Shares held by the estate of the late Tan Sri Dato' Sri Dr. Teh Hong Piow ("estate") and Consolidated Teh Holdings Sdn Bhd ("Conteh"), representing a total 44.15% equity interest in LPI, for a total cash consideration of RM1.72b or RM9.80 per share. For context, the estate and Conteh held 1.41% and 42.74% stake respectively.

**Triggering an MGO.** Upon completion of the proposed acquisition, Public Bank's shareholding in LPI will increase from nil to 44.15%. This will also trigger a MGO to acquire all the remaining LPI Shares not already held by the group and persons acting in concert for a cash offer price of RM9.80 per Share.

**Acquiring for a discount.** Based on LPI's closing price prior to its trading suspension and 5-day VWAP of RM13.00 and RM12.84 respectively, the purchase and offer price is a discount of 24.6% and 23.7% respectively. The offer price implies a P/BV of 1.71x, which is a discount from its current P/BV of 2.3x. With this in mind, we believe that the MGO will not likely see any interest from the remaining shareholders. Public Bank intends to maintain the listing of LPI.

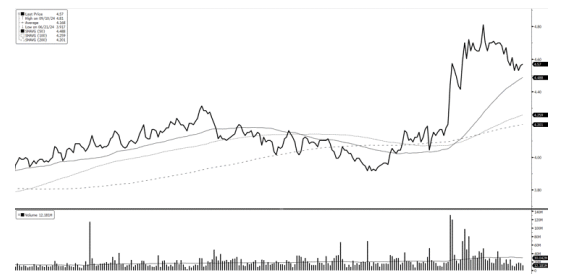
**Maintain BUY**

**Unchanged Target Price: RM5.16**

#### RETURN STATISTICS

Price @ 10 October 2024 (RM)	4.57
Expected share price return (%)	+12.9
Expected dividend yield (%)	+4.3
Expected total return (%)	+17.2

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-2.8	-2.8
3 months	0.2	9.7
12 months	10.1	-3.6

#### INVESTMENT STATISTICS

FYE Dec	FY24F	FY25F	FY26F
<b>Core NP (RM m)</b>	<b>6,774</b>	<b>7,153</b>	<b>7,403</b>
CNP growth (%)	2	6	3
<b>Div yield (%)</b>	<b>4.0</b>	<b>4.3</b>	<b>4.4</b>
Gross DPS (sen)	18.5	19.5	20.2
<b>P/BV (x)</b>	<b>1.6</b>	<b>1.5</b>	<b>1.4</b>
BVPS (RM)	3.0	3.2	3.4
<b>ROE (%)</b>	<b>12.0</b>	<b>12.0</b>	<b>11.7</b>
<b>MIDF/Street CNP (%)</b>	<b>98</b>	<b>98</b>	<b>97</b>

#### KEY STATISTICS

FBM KLCI	1,640.94
Issue shares (m)	19410.69
Estimated free float (%)	70.30
Market Capitalisation (RM'm)	88,706.86
52-wk price range	RM3.98 - RM4.84
3-mth avg daily volume (m)	29.12
3-mth avg daily value (RM'm)	131.69
Top Shareholders (%)	
Consolidated Teh Holdings Sdn Bhd	21.64
EPF Board	8.54
Kumpulan Wang Persaraan Diperbadan	4.71

**Analyst**

Imran Yassin Yusof  
imran.yassin@midf.com.my

**Rationale of the acquisition.** The acquisition represents an opportunity for the group to further expand its general insurance segment through the LPI Group's platform to immediately gain a strong foothold and instant access to the LPI Group's client base in Malaysia. Currently, the group's general insurance segment is undertaken in Cambodia via its 55%-owned subsidiary, namely Campu Lonpac Insurance Plc. With this, it would enable the group to provide a comprehensive complementary service to its current financial services offerings and establish a market presence in the general insurance segment in Malaysia, which is expected to be value accretive to the enlarged PBB Group. This would accelerate its vision to be one of the few companies in the industry to have a "Universal Banking Model" that offers comprehensive and diverse range of financial and related services under the same group.

**Would be value accretive but not by much.** Assuming that the MGO receives full acceptance, the pro-forma impact based on FY23 will see a minor lift to Public Bank's earnings with EPS of 1 sen from 35 sen to 36 sen, which is a +2.8% lift. Meanwhile, there will be no change to Public's BVPS, and CET-1 ratio impact of only -20bps. Based on our model, we estimate the impact of 5% to our FY25 estimate of Public Bank's earnings.

**Forecasts unchanged.** Earnings forecast unchanged.

**Key downside risks.** (1) Poor NOII performance, (2) Slower-than-expected loan growth, (3) Sharper than expected NIM compression.

**Maintain BUY call: Maintain GGM-TP of RM 5.16.** The TP is based on FY25F P/BV of 1.63x. All-in, we are neutral with a slight positive bias about this proposed acquisition. While the proposed transaction will be value accretive, we opine it will not be significant. Nevertheless, Public Bank is acquiring an established general insurance player at a discount. Furthermore, it could unlock some synergy such as leveraging on both party's customer networks and bundling of products.

**(GGM assumptions: FY25F ROE of 12.0%, LTG of 3.5% & COE of 8.7%)**



## FINANCIAL SUMMARY

## INCOME STATEMENT

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
<b>Net interest income</b>	<b>9,167</b>	<b>9,055</b>	<b>9,226</b>	<b>9,666</b>	<b>9,981</b>
Islamic banking inc.	1,857	1,562	1,953	2,046	2,112
Other operating inc.	2,414	2,476	2,667	2,685	2,809
<b>Net income</b>	<b>13,438</b>	<b>13,093</b>	<b>13,845</b>	<b>14,396</b>	<b>14,902</b>
OPEX	(4,235)	(4,415)	(4,707)	(4,751)	(4,918)
<b>PPOP</b>	<b>9,203</b>	<b>8,678</b>	<b>9,138</b>	<b>9,646</b>	<b>9,985</b>
Loan allowances	(366)	(157)	(326)	(341)	(355)
Other allowances	(13)	(1)	(11)	(11)	(11)
JV & Associates	7	19	12	12	12
<b>PBT</b>	<b>8,831</b>	<b>8,539</b>	<b>8,813</b>	<b>9,306</b>	<b>9,631</b>
Tax & zakat	(2,661)	(1,884)	(1,956)	(2,066)	(2,138)
NCI	(50)	(6)	(82)	(87)	(90)
<b>Reported NP</b>	<b>6,119</b>	<b>6,649</b>	<b>6,774</b>	<b>7,153</b>	<b>7,403</b>
<b>Core NP</b>	<b>6,119</b>	<b>6,649</b>	<b>6,774</b>	<b>7,153</b>	<b>7,403</b>
Total NII	10,949	10,531	10,983	11,507	11,882
Total NOII	2,489	2,562	2,862	2,889	3,020

## BALANCE SHEET

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash & ST funds	21,767	11,127	17,780	17,780	17,780
Investment securities	81,387	86,731	84,318	82,923	82,848
Net loans	372,583	394,750	412,911	430,401	448,478
Other IEAs	4	1	1	1	1
Non-IEAs	17,522	17,988	22,904	23,351	23,834
<b>Total assets</b>	<b>493,263</b>	<b>510,598</b>	<b>537,914</b>	<b>554,456</b>	<b>572,941</b>
Customer deposits	394,719	412,897	431,477	449,599	468,483
Other IBLs	37,989	32,056	30,199	28,660	27,381
Non-IBLs	9,029	9,264	16,720	13,112	10,313
<b>Total liabilities</b>	<b>441,737</b>	<b>454,218</b>	<b>478,396</b>	<b>491,371</b>	<b>506,177</b>
Share capital	9,418	9,418	9,418	9,418	9,418
Reserves	40,762	45,257	48,592	52,068	55,654
<b>Shareholders' funds</b>	<b>50,179</b>	<b>54,674</b>	<b>58,009</b>	<b>61,486</b>	<b>65,072</b>
NCI	1,347	1,706	1,508	1,599	1,692
<b>Total equity</b>	<b>51,526</b>	<b>56,380</b>	<b>59,517</b>	<b>63,084</b>	<b>66,764</b>
<b>Total L&amp;E</b>	<b>493,263</b>	<b>510,598</b>	<b>537,914</b>	<b>554,456</b>	<b>572,941</b>
Total IEAs	475,741	492,610	515,010	531,105	549,106
Total IBLs	432,708	444,953	461,676	478,259	495,864
Gross loans	376,892	398,997	416,951	434,463	452,711
CASA	118,033	117,295	112,184	112,400	117,121

## FINANCIAL RATIOS

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
<b>Interest (%)</b>					
NIM	2.36	2.18	2.18	2.20	2.20
Return on IEAs	3.22	3.73	3.42	3.38	3.33
Cost of funds	1.37	2.05	1.77	1.70	1.64
Net interest spread	1.84	1.68	1.65	1.67	1.69
<b>Profitability (%)</b>					
<b>ROE</b>	<b>12.4</b>	<b>12.7</b>	<b>12.0</b>	<b>12.0</b>	<b>11.7</b>
ROA	1.3	1.3	1.3	1.3	1.3
NOII/Net income	18.5	19.6	20.7	20.1	20.3
Effective tax rate	30.1	22.1	22.2	22.2	22.2
Cost/Income	31.5	33.7	34.0	33.0	33.0
<b>Liquidity (%)</b>					
Loan/Deposit	94.4	95.6	95.7	95.7	95.7
CASA ratio	29.9	28.4	26.0	25.0	25.0
<b>Asset Quality (%)</b>					
GIL ratio	0.42	0.59	0.57	0.55	0.55
LLC ratio	272	182	170	170	170
LLC (w. reserves)	292	213	190	190	189
Net CC (bps)	10	4	8	8	8
<b>Capital (%)</b>					
CET 1	14.9	14.2	14.2	14.0	13.8
Tier 1 capital	14.9	14.7	14.7	14.5	14.3
Total capital	17.9	17.6	17.6	17.5	17.3
<b>Growth (%)</b>					
Total NII	11.8	-3.8	4.3	4.8	3.3
Total NOII	-9.5	2.9	11.7	0.9	4.5
Net income	10.2	-1.2	1.9	4.8	3.3
OPEX	6.8	4.2	6.6	0.9	3.5
Core NP	8.2	8.7	1.9	5.6	3.5
Gross loans	5.3	5.9	4.5	4.2	4.2
Customer deposits	3.8	4.6	4.5	4.2	4.2
CASA	0.0	-0.6	-4.4	0.2	4.2
<b>Valuation metrics</b>					
Core EPS (sen)	31.5	34.3	34.9	36.9	38.1
Gross DPS (sen)	17.0	19.0	18.5	19.5	20.2
Div payout (%)	54	55	53	53	53
BVPS (RM)	2.6	2.8	3.0	3.2	3.4
Core P/E (x)	14.8	13.7	13.4	12.7	12.3
<b>Div yield (%)</b>	<b>3.6</b>	<b>4.1</b>	<b>4.0</b>	<b>4.2</b>	<b>4.3</b>
P/BV (x)	1.8	1.7	1.6	1.5	1.4

Source: Public Bank, MIDFR

Income Statement	Balance Sheet	Valuations & Sector
Core NP – Core Net Profit	LCR – Liquidity Coverage ratio	ROE – Return on Equity
PPOP – Pre-Provisioning Operating Profit	L/D ratio – Loan/Deposit ratio	GGM – Gordon Growth Model
NII – Net Interest Income	CASA – Current & Savings accounts	P/BV – Price to Book Value
NIM – Net Interest Margin	FD – Fixed Deposits	BVPS – Book Value per Share
COF – Cost of Funds	GIL – Gross Impaired Loans	BNM – Bank Negara Malaysia
NOII – Non-Interest Income	NIL – Net Impaired Loans	OPR – Overnight Policy Rate
MTM – Mark to Market	LLC – Loan Loss Coverage	SRR – Statutory Reserve Requirement
CIR – Cost to Income Ratio	NCC – Net Credit Costs	SBR – Standardised Base Rate
OPEX – Operational Expenses	GCC – Gross Credit Costs	ALR – Average Lending Rate
	CET 1 – Common Equity Tier 1	

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### MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology